Replacing the PDS

The debates about the Right to Food Bill are essentially about the scope of the PDS and not its form.

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The debates about the Right to Food Bill are essentially about the scope of the PDS and not its form. In the NGO perspective, the PDS should be universal and entitlements should not be less than the monthly current quota of 35 kg per household. The finance ministry view is to limit government liabilities. Here, a food subsidy programme would be targeted to below poverty line (BPL) households and entitlements restricted to 25 kg of grain per month (at Rs 3 per kg).

Both sides are, however, agreed that the existing form of the PDS serves as the template for the future as well. The consensus about the existing model of state procurement and distribution is seemingly impervious to repeated tales of corruption, pilferage and inefficiencies of state agencies. The most recent instance is the report of a vigilance panel appointed on directions by the Supreme Court, quoted as saying that the system is subject to rampant corruption, black marketing and diversion of funds.

Recent research has quantified the magnitude of this problem. It is estimated that in the year 2004-05,43 per cent of government expenditure on food subsidy was lost to illegal diversions. Another 28 per cent was lost because of excess costs (relative to the private sector) of the state agencies. Households (whether poor or not) through PDS purchases received the equivalent in monetary value of only 29 per cent of public expenditure.

The share of poor households is a measly 10 per cent. Is this the programme that is supposed to serve as the bedrock of a future rights-driven entitlement scheme?

The NGO perspective is empirically grounded on one point. The targeted PDS does exclude many of the poor. A big reason is that many of the poor do not possess BPL cards and are therefore not eligible for subsidies. The critics are right that the targeting criteria ought to be relaxed and should cover the poor adequately even at the cost of including some of the non-poor. What they miss, however, is that the resources for such an expansion can be found from cutting the enormous waste in the PDS programme.

Efficient delivery of food subsidies should therefore be high on the policy agenda. Efforts over many decades to reform the PDS have not borne fruit. Much hope is now placed on computerisation of the PDS supply chain and in monitoring and inspection efforts. The alternative is to move towards a system of food coupons or restricted cash transfers the case for which was eloquently argued in the 2010 Economic Survey. Cash transfer programmes have huge efficiency advantages over in-kind transfers such as the PDS. They, however, require investments in payments systems that may not be immediately available in rural areas.

So what will work? Experimentation is clearly needed, and should be the basis of pragmatic food subsidy policies. For instance, there is ongoing investment in payment systems (bank accounts, smart cards) for a variety of social programmes including health insurance, old age pensions and financial inclusion. It would therefore be unwise and myopic for the Right to Food Bill to close off the option of restricted cash transfers. It is imperative that the Right to Food Bill does not commit the government, now and in future, to a specific form of food subsidy.

The food subsidy system is a joint responsibility of the Central and state governments where the former bears the costs and the latter has the primary responsibility for implementation. It is well known that PDS performance differs across states which suggests that local factors matter and should therefore be taken into account in food subsidy policy.

Indeed, while there is enormous scope for improving efficiency by reforms such as geographic targeting, self-targeting and food stamps, their design and effectiveness are specific to local preferences, knowledge, infrastructure and circumstances. For instance, a state could subsidise coarse cereals, use food coupons in urban areas, allow universal access in backward districts, and temporarily increase the subsidy rate in regions that are adversely affected by floods, drought and other natural disasters. In a decentralised framework, the Central government would primarily be a funding agency and its role in operations would be limited to the storage of emergency reserves.

Such a move towards a federal relationship in food subsidies is essential if the food subsidy system is to be flexible and contingent on local circumstances and needs. It need not result in the Central government abandoning its responsibilities, as some critics fear, provided the state governments negotiate with the Central government to ensure the scale of financing is commensurate with the needs of a secure safety net. Indeed, this ought to be the major agenda of the Right to Food Bill.

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